BOARD OF COMMUNITY HEALTH
August 25, 2005

The Board of Community Health held its regularly scheduled meeting in the Floyd Room, 20th Floor, West Tower, Twin Towers Building, 200 Piedmont Avenue, Atlanta, Georgia. Board members attending were Jeff Anderson, Chairman; Richard Holmes, Vice Chairman; Chris Stroud, M.D. (Secretary); Inman English, M.D.; Ann McKee Parker, Ph.D.; Mary Covington; Ross Mason; Kim Gay, and Mark Oshnock. Commissioner Tim Burgess was also present. (A List of Attendees and Agenda are attached hereto and made official parts of these Minutes as Attachments # 1 and # 2).

Mr. Anderson called the meeting to order at 12:12 p.m. The Minutes of the July 14 meeting were UNANIMOUSLY APPROVED AND ADOPTED.

Mr. Anderson began his opening comments by stating that the Board would not vote on the budget today. Today's discussions will center on information gathered at the Stakeholders Meeting held August 10 and chaired by Mr. Oshnock.

Mr. Anderson called on Commissioner Burgess to make his report. He began by welcoming Representative Ben Harbin, Chairman, House Appropriations Committee; Representative Michele Henson; and Senator Greg Goggans, newly appointed Chairman of the Senate Community Health Appropriations Subcommittee.

Commissioner Burgess updated the board on several procurements: 1. Disease Management – APS Healthcare was awarded the north region and United Healthcare in partnership with Life Masters was awarded the south region. In total those two full risk bids together for the first 12 months will return a net savings of about $40 million (total funds); 2. State Health Benefit Plan (SHBP) PPO - Commissioner Burgess said the Department is close to completing the evaluation and awards for the PPO and should announce the winner in the next several days. The Commissioner said this procurement was a consolidation of several operations within the SHBP: claims payment, PPO network, utilization management and a few other functions; 3. Pharmacy Benefit Manager (PBM) – the contract is under evaluation now and it is anticipated that within a month the Department will be able to finalize the evaluation and make the award; 4. CMOs – it is anticipated that within the next 60-90 days there will be a huge amount of activity in preparing and implementing the managed care proposals that will go into effect January 1 for the Atlanta and Central Georgia regions. As part of the implementation of the managed care proposals, the Department has begun work on a public information campaign that is twofold: targeting the members who will be moved into these plans and a public relations effort to inform the general public of this initiative.

Finally, the Commissioner talked about the FY 07 budget. He said the department had spent a lot of time, including the Stakeholders session, in trying to assess the proposals, evaluate alternatives and prepare for the presentation of a budget that met the Governor's guidelines. He characterized the FY 07 budget as a kinder, gentler budget and listed several developments that Carie Summers, Chief Financial Officer, and Mark Trail, Chief, Medical Assistance Plans, would explain in detail.

Mr. Anderson asked Mark Oshnock, Chairman of the Audit Committee, to give the Committee's report. Mr. Oshnock said the Committee received a copy of the FY 2004 financial audit. The timeline was met. The financial statements have been completed. The opinion on the balance sheet was clean. The FY 05 financial statements will be presented to the independent auditors on Monday, August 29, 2005, and the anticipation is a three-month audit process with expected release of the audit by November. Mr. Oshnock said the Committee reviewed at a high level a summary of the FY 04 audit findings and other recommendations from the JV. The Committee will review the findings for follow up questions at the September Audit Committee meeting.

Mr. Anderson called on Dr. Chris Stroud, Chairman of the Care Management Committee, to make the Committee's report. Dr. Stroud said the Care Management Committee heard a detailed report from Kathy Driggers, Chief, Managed Care and Quality. Ms. Gay gave a summary of Ms. Driggers' report; the CMO contracts were signed on July 18, the contracts were awarded to Amerigroup, WellCare and Peach State; and MAXIMUS will be the enrollment broker. The Department has made site visits to the CMOs and will start a readiness program the first of September. Dr. Stroud added that the Department will roll out a **Georgia Healthy Families** logo and campaign to communicate to members that it is incumbent upon them to make certain that the

Department has their correct contact information for the enrollment broker to enroll them in the CMO program.

Mr. Anderson called on Carie Summers and Mark Trail to review and discuss the proposed FY 2007 budget. Ms. Summers began by reviewing historical growth on an accrual expense and growth by fiscal year, enrollment growth from FY 00-FY 05, and incremental annual growth. She went on to discuss Medicaid continuation growth. The DCH expects accrual expense to be about 9% or about $616 million (total funds) higher in FY 07 than in FY 06 mostly driven by enrollment projection. Enrollment is expected to continue growing by 5.7% in FY 07. Ms. Summers reviewed other FY 07 Medicaid state fund cost drivers ($306.0 million in state funds)—things that the Department would not expect to handle every year—cash to accrual cost to make CMO Capitation Payments, Right from the Start Medicaid expansion previously funded by Indigent Care Trust Fund (ICTF), Medicare Clawback, FY 2006 Legislative budget cuts not realized (disease management, emergency room pilot expansion, transfer of nursing home residents to SOURCE and hospital cost settlements); loss of UPL proceeds; and administrative costs not previously budgeted (enrollment broker contract, RSM eligibility expansion workers and eligibility review).

Ms. Summers said there are significant offsets to those additional costs and continuation costs: prior year UPL proceeds, prior year surplus (DHR A/R balance, cost settlements collected early, drug rebates in excess of budget, benefits expenditures less than budget, recovery of overpayments and other A/R balances due); CMO Quality Assessment Fees (beginning January 2006, participating CMOs will be assessed a fee based on 6% of their revenue and will be used to match federal funds and deposited into the ICTF), managed care savings (about $59 million total funds in FY 06 and $199 million total funds in FY 07) and Federal Financial Participation (FFP) rate change (the amount CMS reimburses the state for every dollar spent). She said in summary the Department projects that in FY 07 the cash needs are about $2.056 billion. Ms. Summers said the Governor's parameters were to submit two budget proposals; 2% reduction or 98% of FY 06 budget and one at 104% or enhancement. To meet the 2% reduction level, DCH would have to cut $113.7 million; at the 100% continuation level it would have to cut $74.1 million; and at the 104% enhancement level the Department could ask for $5.2 million in enhancements. After Ms. Summers addressed questions from the Board, Mr. Anderson called for a 10-minute recess.

Mark Trail began presentation of four proposals for the board's consideration; eligibility administration, Administrative Services Organization, pharmacy pricing and hospital cost settlements. Mr. Trail said the Department engaged GHT Development Corporation in Fall 2004 to analyze the Medicaid eligibility process and systems review both at DCH and DHR. Some of the GHT findings were: cumbersome dual governance structure, failure to independently verify income, inadequate business processes and information technology infrastructure is antiquated. The Department's proposed initiatives include performing a records audit in Fall 2005, reconfiguring quality assessment and quality control, validating income, enhancing fraud and abuse control, adding decision support and business intelligence, enhancing eligibility technology and making policy changes in FY 2007. The FY 2007 savings projections are $64 million total funds; $25 million state funds.

The second proposal is a Medicaid Administrative Services Organization (ASO). Mr. Trail said an ASO is typically used when risk based care is not feasible and could include performance requirements, claims processing, network management, member services, grievances and appeals and disease and care management. He said these functions might be performed by multiple vendors or new or existing vendors. Some of the new functions proposed are provider and member profiling, case management, nurse call line, enhanced prospective medical review, added fraud and abuse detection, certain eligibility functions and level of care determination. Mr. Trail said ASO functions are like managed care but are not done in a risk environment. The target population is all members not currently in risk-based managed care such as the aged, blind and disabled, medically fragile children, and foster children. The FY 07 ASO savings projection is $51 million total funds; $20 million in state funds.

Ms. Summers said the third proposal is pharmacy pricing which changes the way the Department reimburses pharmacists for prescription drugs. She said currently DCH pays pharmacists based on Average Wholesale Price (AWP) applying an 11% discount at a minimum and adding a dispensing fee. The proposal is for the Department to move to Wholesale Acquisition Cost (WAC) with no discount and increase the dispensing fee per prescription. The FY 2007 savings projection is $13 million total funds; $5 million state funds.

After addressing questions from the Board, Ms. Summers began discussion on the fourth proposal—Hospital Cost Settlements. She said the Department makes interim payments to hospitals for outpatient services based on cost-to-charge ratios that approximate cost. At the end of the year, hospitals complete cost reports and submit them to Medicare for audit. DCH uses the Medicare audited cost reports to determine amounts of overpayment or underpayment when comparing interim payments to final audited costs. The proposal is instead of waiting until the Department gets the audited cost reports from Medicare, conduct interim hospital cost settlements based on "as filed" cost reports for years of service between FY 2002 and FY 2005 and either recover what had been overpaid, and in the case where the Department underpaid, make that payment. The FY 07 savings projection is $162 million total funds; $64 million in state funds. If implemented these proposals would allow the Department to address the $113.7 cut at the reduction level (98%); the continuation level (100%) would create about $40 million that could be budgeted; and likewise with the enhancement level of 104% there could be an additional $119 million that could be budgeted. Ms. Summers concluded this portion of the presentation about the Medicaid budget after addressing questions from the Board.

Ms. Summers continued with an overview of the PeachCare for Kids program. She said the Department feels it is facing a potentially large federal deficit. SCHIP, the federal designation for the state's PeachCare for Kids program, is authorized only through Federal Fiscal Year 2006. At the end of September 2006 there will be no federal funds available without Congress' reauthorization of the program. She said the annual federal funding utilized to date is a combination of current year allotment and prior year surplus. The state now has annual federal expenses greater than the annual allotment, and the prior year surplus is running out. She said unless Congress changes the state allocation formula the state will still have financial difficulties, even if Congress reauthorized the program. The Department is hopeful that the allocation methodology is amended to not only consider the number of children in the state that are uninsured, but also to consider the number of children in the state that are in the SCHIP program. She said there may not be a need for new state funds if additional federal funds are available.

Ms. Summers presented to the Board the fiscal outlook of the State Health Benefit Plan (SHBP). She said the Department did not have any proposals to present to the Board on how DCH will deal with the annual funding needs for the Plan in FY 07. Revenue growth is projected at 3.8%, which means the SHBP should collect about $2.2 billion in revenue from both employee and employer contributions. Expenditure growth is projected at 10.6% with about $2.42 billion in expenditures. This equates to about a $222 million deficit. Ms. Summers said the SHBP could not rely on a fund balance to cover the deficit; the SHBP must make changes to increase revenue or reduce expense. (A copy of the Fiscal Years 2006 and 2007 Budget Planning handout is hereto attached and made an official part of these minutes as Attachment # 3).

Mr. Anderson opened the meeting for public comment. Mr. Jimmy Lewis of HomeTown Health gave public comment.

There being no further business to be brought before the Board at the meeting Mr. Anderson adjourned the meeting at 2:33 p.m.

THESE MINUTES ARE HEREBY APPROVED AND ADOPTED THIS THE

_____ DAY OF _____, 2005.

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MR. JEFF ANDERSON
Chairman

ATTEST TO:

_____
CHRISTOPHER BYRON STROUD, M.D.
Secretary

Official Attachments:

#1 List of attendees
#2 Agenda
#3 Fiscal Years 2006 and 2007 Budget Planning handout